

Minutes of the Blue Ribbon Panel for Transportation Funding
Meeting #1
April 3, 2008
8:30 am-10:45 am
Department of Administration – Conference Room A

Members Present: Jerome Williams, Dept. of Administration, Co-Chair
Michael Lewis, RIDOT, Co-Chair
Peter Osborn, FHWA
Keith Stokes, Newport Chamber of Commerce
John Gregory, Northern RI Chamber of Commerce
Lloyd Albert, AAA
Gary Sasse, Dept. of Revenue
Robert Cusak, Investment Firm
John Simmons, RIPEC
William Sequino, Town Manager, East Greenwich
Robert Weygand, URI
Maureen Gurghigian, First SW Securities (instead of
serving on the Panel, she will serve as a financial advisor
to the Panel)

Staff: Robert Shawver, Marc Leonetti, Kazem Farhoumand, Diane Badorek
and Robert Letourneau

In Attendance: George Johnson and Katherine Trapani

Mission

Mr. Williams introduced the mission of the Panel as follows:

1. Fully understand the infrastructure needs of the RI transportation system
2. Review Federal and State resources for transportation infrastructure needs
3. Receive public input on transportation funding
4. Assess options for future infrastructure funding (10 year horizon at a minimum)
5. Recommend funding mechanisms and market the plan

The expectation of the Panel is to complete its work by the Fall, propose recommendations, meet with the Governor and General Assembly leaders and submit legislation in the next session of the General Assembly. The mission of the Panel is not to discuss which projects should or should not be implemented, but to grasp the entirety of the transportation system in Rhode Island and how to properly fund the system.

The Panel will meet on the first Thursday of every month from 8:30 am to 10:30 am at the Department of Administration, Conference Room A. The tentative meeting schedule is as follows:

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| May 1 st | Transportation Needs to include infrastructure demands, deferred maintenance, projected deficit, what is in the TIP and what is not. Robert Shawver will continue with his presentation (see handout pages 18-26). In addition, the Long Range Transportation Plan (LRP) scenarios will be discussed (see below). |
| June 5th | Financial recommendations from other states and proven programs of financing (a presentation by the FHWA Technical Resource Team); and the magnitude of impact fees, tolls and other new revenue sources |
| July 3rd | Develop options for financing transportation in RI |
| August 7th | Establish a public hearing and present options with impact statements. The concept is to establish a funding plan that meets the needs and does not require additional changes in the near term. |
| September 4 th | Review the results of options and public comments; begin to draft plan |
| October 2 nd | Comment on draft plan and finalize for public release |

Communications Strategy

Much panel discussion took place as to creating the methodology and mechanisms to market and sell the financing plan recommendations of the Panel. The strategy must include publicizing the work of the Panel as it deliberates to include minutes, handouts, and publications posted on the RIDOT website with links to other websites such as AAA and the Chambers of Commerce. It was suggested that web-based messaging among the Panel members could be established.

Relationships must be built with the general public, the General Assembly and cities and towns.

A paradigm shift must take place as to how Rhode Islanders look at their transportation assets. Presently we undervalue and under-price our assets (e.g., Pell Bridge). We need to look at our work on the infrastructure as an investment and the return on investment will be keeping the asset in a good state of repair. If we value the asset we will be willing to pay to maintain it.

The citizenry looks at increased financial investment for transportation as spending and not as an investment in the future. We need to create a vision for our roadways and bridges. What are they going to be? If we maintain a mediocre system, we will not be able to sell increased funding for transportation. If people do not see improvement, they will not be interested in funding it.

Increase Membership on the Panel

There was discussion about increasing the membership of the Panel to include a legislator and RIPTA. The preference of the Chairperson is not to add to the Panel. Many people have requested to be included in the group. The General Assembly will be updated as to the Panel's progress, and RIPTA will be invited to make a presentation. We will need to look at transit as part of the long-term solution.

Highlights of Documents Available to the Panel

Mr. Williams provided some highlights from Federal documents made available to the Panel.

Federal Documents

- The consequences of inaction
- Auto casualties
- Increased congestion in the urban core
- Decreasing reliability of the transportation system impacting economic growth
- Delaying projects to make more targeted investments
- 52% increase in construction costs mostly in 2005 and 2006
- The erosion of the value of funding
- Performance-based approach to asset management
- Freight and intercity transportation increases
- Environmental protection
- Energy security
- Research and development

Federal funding improvements included:

- Increase in fuel tax
- Transit and intercity rail ticket tax
- Customs funding for freight rail

Highlights from AASHTO White Paper on Transportation Finance

- Trust fund: Highway Trust Fund and Transit Trust Fund component income is decreasing
- Unprecedented escalation in construction costs has occurred
- Freight demand is increasing

- If nothing is done with the Trust Fund, RI could lose \$30-\$80 million per year
- Investment levels need to be 3 times what they are today to meet the need in the next decade

Other states (CT, GA and CO) conducted similar transportation funding studies. Some of the revenue recommendations from these studies include:

- Increase highway maintenance fees
- Increase registration fees
- Increase motor fuel taxes
- Increase visitor fees
- Increase sales and use taxes
- Create a State Infrastructure Bank as a revolving loan fund
- Toll HOV lanes
- Establish petroleum gross earnings tax to include all products made from petroleum

Status of Financing Transportation in RI

Robert Shawver made a presentation to the Panel (see attached power point presentation pages 1-17).

The revenue provided to Rhode Island from the fixed Federal and State gas tax is insufficient to pay for the costs of operation, maintenance and rehabilitation of the State's highway and transit systems.

Rhode Island is funded by federal and state gas tax, and General Obligation (GO) bonds to match the federal gas tax with debt service on the bonds paid for by state gas tax.

Federal Program: For every \$1 contributed by Rhode Island to the national highway trust fund, Rhode Island receives \$2.20. The states that are considered donor states receive less than \$1 for every \$1 they contribute to the Highway Trust Fund and are proposing to change the federal formula. This usually happens when the transportation act needs to be reauthorized. The next reauthorization discussion will take place next year.

What is authorized in federal funding for RI in the transportation act (SAFETEA-LU) is usually higher than what is appropriated to the state each year. In addition, Congress appropriates earmarks (usually projects not in the TIP, or if in the TIP, are in the future years) which come directly off the top of the annual apportionment. Many of these earmarks are not ready for construction and limit RIDOT's flexibility to use funding where needed.

Of concern to all DOTs is the revenue shortfall in the Trust Fund beginning in FY 2009. The projected revenue shortfall is 36.9% from that in FY 2008. If nothing happens to correct this situation, RI could lose up to \$80 million.

State Program: Total program costs are matched at 20% by the state using GO bonds. Since the last bond issue in 2006, RI is now bonding \$40 million per year instead of \$30 million. This is due to an increase in federal funding over the years. For FY 2009, the debt service on GO bonds will be \$42 million paid for by gas tax. Due to our over-reliance on debt to fund our highway programs, DOT is now behind the “eight-ball”. Gas tax revenue has been flat over the last few years and is now declining. We anticipate the yield in FY 2009 will be \$4.55 million per penny. A few years ago it was \$4.8 million per penny. The decline is partially due to the use of more fuel efficient vehicles and the purchase of gasoline in MA which can be 5-10 cents lower than in RI.

GARVEE: RI borrowed funds to jumpstart five large highway projects. RIDOT must pay back these bonds using future FHWA funds. Payback will be in the \$40-\$50 million range until 2019 and will be fully paid in 2022. The impact of the GARVEE projects reduces the amount of federal funding to RI to meet the TIP requirements.

Motor Fuel Tax Bonds: These funds are paid back using 2 cents of the gas tax that goes to RIDOT. Consequently, the RIDOT gas tax for operations was reduced from 20.75 cents to 18.75 cents per gallon of fuel sold.

The Washington Bridge is the only one of the five GARVEE projects not using Motor Fuel Tax bonds. RIDOT is using another innovative financing product called toll credits (a soft match – not hard dollars). RIDOT uses the value of the cost of maintenance on the Pell and Mt. Hope Bridges as a credit of the state match required to the federal funds. Therefore, the project can be funded with 100% federal funds. The impact on the federal program is that it reduces the amount of federal funding to RI to meet the TIP requirements.

RIDOT Maintenance and Operations: The RIDOT operations and maintenance budget is based on the gas tax levy approved by the General Assembly and is not based on need. The FY 2007 budget is as follows:

Total Gas Tax Revenue:	\$ 97.6 million
Less: MFT debt service:	9.3 million
GO debt service:	<u>35.9 million</u>
Available for Operations	\$ 52.4 million

In addition, RIDOT is borrowing funds to replace its maintenance fleet with debt service financed by gas tax, over a 5-7 year period.

RIDOT will provide the Panel (at the next meeting) with the current allocation of the RIDOT gas tax.

Transportation Improvement Program (TIP) and the Long Range Transportation Plan (LRP)

There is a parallel activity that may have some impact on the Panel's work and is on a similar track for public comment. Both the TIP and the LRP are being developed at the same time for submission to FHWA and FTA in August. The Long Range Transportation Plan is being developed in a four-scenario profile.

1. Drown: This scenario assumes that there are no new funding sources. There may be a modest increase in federal funding, but the state will continue to rely on current taxes and general obligation bonds to match federal funds. This is a recipe for disaster, as has been pointed out in previous transportation plans. Deferred maintenance and highway projects are the result of this unsustainable system. Additionally, congressionally-earmarked projects often fail to allocate enough funding to complete the project. In such cases where the state is not in a position to come up with remaining funds, federal money may have to be returned. In this scenario, GARVEE projects and bridges demanding immediate attention are the priorities. RIPTA bus and ferry services are cut.

2. Tread Water: Complete the TIP – there are many projects in the TIP (highway and enhancements especially) that have been there for years, if not decades, and are continually deferred due to lack of funds. This scenario provides enough funding to complete these projects, and also provides for sustainable bridge and pavement management schedules. The Routes 6/10 project, currently estimated at \$290 million, can be programmed. RIPTA service is maintained at 2007 levels including the ferry. All earmarked projects, including those requiring additional state funding can be completed.

3. Swimming: Targeted Expansion – In order to improve the overall condition and capacity of the transportation system, some expansion must occur. This scenario makes progress on bicycle and pedestrian infrastructure, increases bus and commuter rail service, provides some funding to municipalities for local roads, and widens certain congested segments of I-95 and I-295.

4. Win the Race: Play to Win – This term is used by the RI Economic Policy Council to describe what the state must do not only to compete and keep afloat, but to “win.” This provides the infrastructure that will carry Rhode Island successfully through the first half of the 21st century. Included in this scenario are Providence streetcars, major bridge retrofits for bicycle accommodation, and full commuter rail along the Northeast Corridor, Blackstone Valley and Aquidneck Island. I-95 is widened to the Connecticut border. RIPTA provides cross-bay ferry service and bus service is expanded to more rural communities. All communities have stable state aid for local roads. The costs are staggering. Rhode Islanders must lose the notion that transportation is free and that government can continue to provide and maintain infrastructure without somehow drastically increasing revenues.

These issues will be incorporated into the 5/1/08 meeting.